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Statement

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Ministère des  
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"SUMMITRY: THE MEDIUM AND THE MESSAGE"

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THE BISSELL PROGRAM  
ON THE 1988 TORONTO SUMMIT

CENTRE FOR INTERNATIONAL STUDIES  
UNIVERSITY OF TORONTO



TORONTO

February 11, 1988.

Secretary of State  
for  
External Affairs

Secrétaire d'État  
aux  
Affaires extérieures

Canada



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As I follow a series of distinguished speakers who have focussed on economic summits broadly, I thought I would share with you today my own personal experience of summitry, beginning with the Bonn Summit of 1985, as a means of exploring with you where the institution and the issues stand today.

When I speak of Summits, two parallel features of their institutional personality come to mind: the medium, by which I mean the Summit as an institution: and the message, or policy outcome. The two are intimately intertwined -- as will be clear from the remarks that follow -- but not quite to the point that would satisfy McLuhan's aphorism:

The innovation of the Summit can be seen as an institutional response to the combined effect of the weakening of the established system of cooperation occasioned by the breakdown of Bretton Woods and the advent of new problems requiring resolution at the highest level . In particular, the first oil price crisis of 1973-74 provided the prompting for a new departure. The initiative for the first Summit (held in Rambouillet in 1975) came from Valéry Giscard D'Estaing and Helmut Schmidt, both former Finance Ministers and well-versed in both domestic and international economic issues. The nature of their proposal was based in important ways on the "Library Group" of Finance Ministers in consequence of having taken place in the library of the White House. These meetings were characterized by the small numbers attending, relative informality, and a lack of bureaucratic preparation. Perhaps portentously, the most contentious issue at Rambouillet turned out to be the choice of countries to take part. The Italians managed to convince the French of their need to attend, but the French vetoed Canadian participation. Canada, however, was invited to attend the next Summit in Puerto Rico by the U.S. hosts, -- again, over stormy French protests. Later the President of the European Commission joined.

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The views expressed in this lecture are those of the author and do not necessarily represent the policies of the Government of Canada.



In practice, the Library Group vision of the founders has been eroded in several respects, not only by the increase in size, but also by an escalation in formality, in the scope and preparation of agendas and an inevitable increase in publicity. French opposition to what is described as the "growing bureaucratisation" of the Summit has been a continuing refrain since 1975, and a desire for a return to the Library Group format by the French -- and perhaps others -- has never been fully abandoned. No doubt this "vision" has served to constrain attendance and to prevent the summits from being formally integrated into the machinery of international economic policy cooperation. In that sense, the "medium" has remained rather stable, in particular unencumbered by an international bureaucratic secretariat. At the same time, in each country summitry has become a focal point for forward planning involving key departments of each government. This is an important, but overlooked, benefit of the process in that it fosters more internationally-oriented decision making in the key industrialized economies. Further, the summit preparatory process now involves a meshing of domestic positions covering the policy scope of the three major multilateral institutions: the Fund, the World Bank and the GATT as well as the annual Ministerial Meeting of the OECD.

Thus the institution or medium of the Summit had two roots: a response to the weakening of international cooperation inherent in the breakdown of the fixed exchange rate system; and a crisis -- the first oil shock. In the early 1980's summits were dominated by the second oil shock and the initial policy response to it, and then by the Reagan or "dollar shock" and the emergence of a striking asymmetry in the world economy among the three major blocs, the U.S., Europe and Japan. These developments formed the economic backdrop to Bonn '85, a turning point in the message of summitry so let me briefly describe both.

## II. THE BACKGROUND TO BONN '85

The policy response to the second oil shock of 1979-80 was -- unlike that to the first -- synchronized and targeted solely at fighting inflation. Monetary policy became a central instrument of control, most visibly in the U.S., with the appointment of Paul Volcker in 1979. While the deflationary impact of policy synchronization by the major OECD countries was both anticipated and desired, the severity of the 1982 recession was much greater than expected or intended. The



cumulative effects of a prolonged period of unprecedented monetary tightness, pursued simultaneously in major industrialized countries, were not well understood: the risks of the policy choice could not be adequately assessed in the face of genuine uncertainty. Certainly the impact on the LDC debt position of rising interest rates, a rising dollar and plummeting commodity prices, was not factored into the "planning equation".

The rebound from the severe 1982 recession was initiated by the strongly expansionary fiscal policy of the Reagan Administration launched in a vision of supply-side euphoria, and by an easing of monetary policy in the U.S. provoked by the eruption of the debt crisis in August of '82. In the rest of the OECD, the prime forces shaping the recovery were weak, consisting primarily of the disinflationary process itself. This contrast between the U.S. and other major countries was sharpened by a continuing and marked tightening of fiscal policy, especially in Germany and Japan, throughout the first half of the decade. Thus were the seeds of our present problems sown: synchronized cooperation in the absence of strategic information followed by uncoordinated national policies entirely governed by domestic political agendas.

The strikingly divergent growth pattern which resulted from the differing recovery impulses produced, as well you know, a number of serious, indeed gross, imbalances. Most dramatic was the sharply contrasting current account positions as between the U.S., with its unprecedented deficit, and comparably large and growing surpluses in Japan and Germany. Differential growth rates accounted for a major portion of the cumulative U.S. external deficit. Another significant factor -- in addition to the loss of dynamic LDC markets especially in Latin America -- was the stunning appreciation of the dollar. The resulting loss of competitiveness of U.S. exports added powerfully to the protectionist fury in Congress. The appreciation of the dollar was due to a massive capital inflow which was doubtlessly influenced by several factors, but chief among these were the high real interest rate differentials between the U.S. and other summit countries reflecting the starkly contrasting fiscal positions already mentioned as well as more fundamental disequilibria in savings patterns, especially between the U.S. and Japan.

It was these gross imbalances in the international economy and the strains they induced -- rising protectionist pressures in the U.S., the systemic



threat of the global debt problem and a growing fear of an exchange rate crisis -- that confronted the heads of government in May 1985 in Bonn.

On the macro front a unilateral U.S. solution -- i.e. a reduction in the fiscal deficit -- had been the standard prescription of all Summits since Reaganomics startled the world. But unilateral action to achieve the much-desired "soft landing" of the dollar, a more sustainable pattern of current account positions and a continuation of the economic growth necessary to prevent a new eruption of the debt crisis looked, by 1985, increasingly inadequate and was, in any case, politically out of reach. What was needed was coordinated action among the major powers to ensure more compatible policies. Equally urgent was a powerful and credible signal, such as the launching of a new GATT Round, to halt the increasingly serious erosion of the multilateral trading system.

### III      A BRIEF PARENTHESIS: TERMINOLOGY

Before moving onto the Bonn Summit, I want, parenthetically, to be quite clear about the terms I have just used, as the proper usage of these terms is not entirely settled or universally accepted.

I think this terminology is best described by former Federal Reserve Governor Henry Wallich and I quote:

"Coordination, harmonization, cooperation, consultation; these, in descending order, are the terms by which nations recognize -- sometimes reluctantly -- that they are not alone in the world..." "Cooperation" falls well short of "coordination", a concept which implies a significant modification of national policies in recognition of international economic interdependence." (emphasis added).

### IV      THE BONN SUMMIT 1985: The Little Summit that Wasn't

The most significant outcome of Bonn -- a "first" in the history of summitry -- was a declaration by each country of its own economic strategy and objectives. These were strikingly similar: reducing structural rigidities and maintaining prudent fiscal and monetary policies. As the New York Times noted: "for the Reagan Administration the endorsement of the free market, small



government views that the other countries had widely ridiculed when President Reagan first took office, marked a stunning ideological achievement". The Economist, perhaps more accurately, called it the "Ronald Thatcher Message".

But the remarkable degree of policy convergence on Ronald Thatcherism had a deeper implication. Policy convergence -- getting one's own house in order -- was the recipe for international economic cooperation which had dominated summitry since the onset of the 1980's. Policy convergence implies "hands off" both domestically and internationally. Policy compatibility on the other hand, would from time to time, require a differentiated package: "Singing in harmony not in unison". Compatibility of policy can imply significant coordinated policy differentiation among countries. The 1985 Bonn Summit endorsed convergence and cooperation at the precise time when compatibility and coordination became the key, if elusive, requirements for achieving world economic stability. Indeed, risks of a financial eruption in exchange markets or a major protectionist assault by the U.S. Congress were widely perceived to have escalated. Yet international "hands off" prevailed at Bonn: the little Summit that wasn't, as it was dubbed by Business Week.

However on the way to the next summit at Tokyo an important change took place in Washington: the move to the Treasury portfolio of Jim Baker.

#### V            TOWARDS COORDINATION: THE ROAD TO TOKYO

The events of 1985 which led to Tokyo were important in themselves, i.e. for what they accomplished, but perhaps equally or even more for what they signalled about the U.S. view of managing global interdependence. Those events -- the Plaza Accord which began the process of managed floating; the Baker Plan which laid out a new conceptual approach to global debt -- signalled a rejection of the philosophy behind convergence, "Get your own house in order and all will be well", as the recipe for international economic cooperation. They signalled a reassertion of U.S. world economic leadership or, taking another view, a recognition of the U.S. need for help.

Let me explain this further. Policy coordination, as already mentioned, implies a significant modification of national policies, when required, in recognition of international economic interdependence. In



the absence of a rule (like a fixed exchange rate or explicit target zones) and an enforcement agent (like the IMF), it is by no means clear whether a system of continuing coordination (rather than an occasional package of coordinated policies) is achievable -- although the alternative, in a fragile situation like the present, may be sufficiently threatening to encourage genuine efforts in that direction. Indeed the current debate about exchange rates is really a debate about international rules as a constraint on national sovereignty. That debate would be difficult and divisive at the best of times. It is made immeasurably more so today by the formidable challenge presented by global imbalances; the absence of an undisputed hegemon; the increasing economic power of new players like the Asian NIC's; the evolution of the European Community to one market; and perhaps most unsettling of all, genuine uncertainty among economists about the appropriate role and pattern of exchange rates.

The reassertion of U.S. leadership was, it must be stressed, a pragmatic step-by-step move to address the challenge of coordinated global management. It did not appear to stem from a coherent vision of the need for or desirability of a basic regime change.

The next step in this "creative ad hocery" was the Tokyo Summit of 1986.

## VI      THE TOKYO SUMMIT: 1986

The Tokyo Summit in its economic agenda for coordination or multilateral surveillance, as it was christened, did two things. It delineated the key forum for this phase of the evolution toward improved coordination (the G-7 Finance Ministers) and it began to spell out (at the initiative of the United States) the means by which such a process might be achieved.

As to the process, the Tokyo Summit enumerated a number of indicators, including exchange rates, by which the desired performance of individual countries might be evaluated. It was suggested that a country that deviated too far from the desired course would be subject to peer pressure to adopt "remedial" measures to alter its economic policies. The debate on the usefulness, and even appropriateness, of these and other indicators continues among G-7 Finance Ministers and their officials, as does the degree to which remedial action should be "automatic". It is the issue of automaticity that is most



controversial because, of course, it implies a move, however tentative, in the direction of "rules".

As well, the role of the IMF in providing analysis to the G-7 as a basis for its discussions is under debate. Were the IMF to assume full "secretariat" functions for the G-7, this, again, would imply a tougher form of international discipline than the present arrangement of peer pressure or suasion buttressed by Fund figures and analysis.

Finally, the Tokyo Summit achieved a major breakthrough in another crucial area of international cooperation, trade policy. Leaders gave a strong push towards the launch of a new Round of multilateral trade negotiations and gave prominence to the central role of agriculture in that Round for the first time in the history of the GATT. Building on this summit push, the Uruguay Round was launched in September 1986 in Punta del Este. It has been accurately described as the most important Round since the founding of the GATT. It is certainly the most ambitious and its outcome will determine the shape and nature of the future world trading system. The contribution of summitry in the trade field has been underestimated, perhaps because it continues to be overshadowed by the search for improved coordination in macroeconomic policy.

Thus the big news event after Tokyo was not Punta but the Louvre.

## VII FROM TOKYO TO VENICE: LOUVRE 1987

The Louvre Accord of February 22, 1987, described by UK Chancellor Lawson as "Plaza Two", sought to give further substance to policy coordination efforts. It spelled out policy measures which member governments would undertake to reduce external imbalances among them and thus help to stabilize exchange rates. As the dollar had fallen by over 30% since the Plaza Agreement of 1985, and further downward pressure on the currency was clear to all, the media focussed almost exclusively on communiqué language in which the G-7 agreed to "cooperate closely to foster stability of exchange rates around current levels". Because the policy commitments, essentially budget deficit reduction by the U.S., and domestic demand stimulus by Japan and the F.R.G., were not "new" and thus not deemed "newsworthy", or even adequate, the Louvre Accord left the powerful impression that the chief focus of cooperation among G-7 Ministers was mainly the



stability of exchange rates. To many this meant focus on a symptom rather than the underlying cause of the threatening world imbalances.

#### VIII THE VENICE SUMMIT: June 1987

The drift in both policy and exchange rates following the Louvre Accord was not sufficiently pronounced as to arouse much disquiet at the political level last spring. Thus, on economic policy, at Venice, the communiqué endorsed again the concept and process of coordination, but provided no new advance in practice. On economic policy Venice was essentially a holding operation. The Economist leader was ascerbicly captioned "Deathly in Venice".

Again, however, the media underestimated progress in other areas. Venice did endorse and validate a major breakthrough on the need for domestic reform in agriculture (which had been pre-negotiated at the OECD some weeks earlier) as a prerequisite of trade reform. Further, by providing an unprecedentedly strong focus on the plight of the poorest debtors of sub-Saharan Africa, the Venice Summit also led to concrete measures to alleviate the situation of these countries, notably the SDR 6 billion expansion of the IMF's Structural Adjustment Facility announced by the Fund's Managing Director, Michel Camdessus, last December. Given the refusal of the U.S. to participate in this initiative, and the strong concerns of both Germany and Japan over burden-sharing among partners, it is likely that this useful proposal would have been seriously compromised had it not been for discussions among leaders at Venice and robust language in the Venice Communiqué making clear that the issue would be revisited at Toronto.

But the absence of advance in Venice on economic policy coordination, compounded by the lack of progress at the IMF/IBRD annual meetings in Washington last September, was, as we know, followed by Black Monday. The causes of the market crash have already been the subject of extensive analysis and debate and more will no doubt follow. One common theme in most commentary concerns the tenuous credibility of the coordination process as exemplified by the public row between the U.S and Germany over their alleged respective inability to live up to their policy commitments. The U.S. deficit reduction package and the German fiscal policy changes which soon followed represented attempts to restore market confidence



and prevent another Cassandra-like warning on the need for more effective global management.

### CONCLUSIONS

So much for the chronology of summitry. What next, in Toronto?

The Challenge confronting Summit leaders at Toronto this June will be -- as is evident from my brief history of the medium and the message of Summitry -- both familiar and formidable. Just consider the political setting: the final period of the Reagan presidency and scarcely a month after a French election. Moreover, any measure of success will be made more difficult to achieve by the scrutiny of a sceptical media army of thousands searching for simple answers to intolerably complex questions and governed by a compelling maxim: "Good news is no news".

I have already argued that the requirement of effective international economic coordination runs head-on into the sensitive issue of the limits of national sovereignty. It is worthwhile spelling out how this is manifested in practice. Not only do countries have different preferences -- for example as between inflation and unemployment or between economic and non-economic objectives -- but also different views about the workings of the economy and the impact of policy, i.e. they operate with different "economic models" in mind. Further, the different institutional apparatus of policy-making among the big three -- U.S., Germany and Japan -- greatly adds to the difficulties of coordination, especially in fiscal policy. This has become painfully evident in the United States where the role of Congress has rendered repeated commitments by the administration questionable to say the least. But German federalism also seriously constrains the room to manoeuvre of the Bonn government as does the constitutionally guaranteed independence of the Bundesbank. In Japan the nature and role of the ruling LDP party has acted as a brake on raising the priority of international considerations in domestic policy-making, although major progress has been made in this respect over the past several years.

None the less, as I have also argued, the progress in policy coordination since the Bonn Summit has been considerable. Policy steps in the right direction if not, perhaps, of the desired magnitude, have been taken and a process of surveillance has been launched.



While in the international monetary sphere agreement on a new regime -- the commitment to new "rules" -- is in my view some years away, there has been real progress in the trade field where a successful completion of the Uruguay Round should indeed produce new and more effective "rules" for the multilateral trading system. This is crucially important in reducing the climate of uncertainty and unpredictability which erodes the investment climate and eats away at the core of the market system. In the global debt field the threat to the world banking system has been contained and reduced, but there is further progress to be made in restoring growth and creditworthiness in the developing countries.

So the real question about Summitry is not whether it has been a catalyst for progress but whether the momentum for change launched since Bonn will be sufficient to prevent a rupture in the world monetary or trading system over the period of transition to more sustainable and balanced world performance. I won't -- indeed can't -- hazard an answer to that more pertinent question but would, as a final statement, argue that summitry is the only available medium to foster such progress.

Although episodic and unpredictable -- one need only recall Bitburg or Chernobyl in recent years -- summitry is the only forum which includes leaders of the major economic powers. Only these leaders have the authority to integrate nationally policies concerning several ministries (often with competing bureaucratic mandates and territorial imperatives) or to reconcile the demands of foreign and domestic policy, having responsibility for both. Further, Summits have a comparative advantage in generating institutional change since the multilateral institutions themselves are unlikely to break from inertial decision-making and established departmental policy positions in the absence of clear directions from the most senior political level.

The most apt comment on summitry then may be a paraphrase of Churchill: it is a reed too frail to support the process of managing interdependence -- except when you consider the alternatives.



# Statement

Secretary of  
State for  
External Affairs



# Déclaration

Secrétaire d'État  
aux Affaires  
extérieures

Government  
Publications

Affaires extérieures et  
Commerce extérieur Canada

External Affairs and  
International Trade Canada

92/60

CHECK AGAINST DELIVERY

NOTES FOR A STATEMENT BY  
THE HONOURABLE MARY COLLINS,  
ASSOCIATE MINISTER OF DEFENCE, ON BEHALF OF  
THE HONOURABLE BARBARA McDOUGALL,  
SECRETARY OF STATE FOR EXTERNAL AFFAIRS,  
IN THE HOUSE OF COMMONS,  
ON CANADA'S PARTICIPATION IN  
THE UN PEACEKEEPING MISSION IN CYPRUS

OTTAWA, Ontario  
December 11, 1992

Canada





Mr. Speaker, I rise today, on behalf of the Secretary of State for External Affairs, the Honourable Barbara McDougall, who was unable to fly to Ottawa this morning because of the snowstorm, to announce the government's decision about Canada's participation in the United Nations' peacekeeping operation in Cyprus.

After extensive consultation with the United Nations, Greece and Turkey, as well as Greek and Turkish Cypriots, the government has informed the Secretary-General of the United Nations that Canada will withdraw its troops from Cyprus beginning in June of 1993, the withdrawal to be completed by September.

For the past 28 years -- in fact from the very beginning of the UN peacekeeping operation in Cyprus -- thousands of Canadian men and women have displayed extraordinary competence, fairness and calm under pressure in the cause of peace. Their presence in Cyprus has been a powerful symbol of Canada's commitment to peace and security in the world. It has been a source of honour and pride, not only for those serving there, but for all Canadians.

I am sure I speak for all members of this House and for all Canadians when I say to these Canadian men and women, as well as to their families, that Canada owes them a large debt of gratitude for their dedication, their professionalism, and to those who died in the service of peace, their sacrifice.

Beyond our contribution of troops and equipment, Canada has spared no effort to help the Secretary-General find a peaceful solution to the dispute. Mrs. McDougall visited Cyprus, Greece and Turkey in May of this year to press all parties concerned to work with the Secretary-General to that end. She renewed our plea to Cypriots at the UN General Assembly in September and indicated that our patience was running short.

We were deeply disappointed that the discussions under the Secretary-General's guidance have not been successful. In a unanimous resolution on November 25, the Security Council stated that "the present status quo is not acceptable."

The government has also taken into account the report of, and appreciates the efforts of a group of parliamentarians, led by the Honourable Member for Don Valley East, who provided Mrs. McDougall with useful information on the current situation in Cyprus.

After 28 years of service in Cyprus, after 28 years of watching both sides in the dispute either being unable or unwilling to negotiate a political solution, after 28 years of significant expenditures to maintain troops and equipment in that region without any measurable progress, it was time to face facts and come to certain conclusions.

Mr. Speaker, our experience in Cyprus has taught us many lessons. One of the most important is that parties to a dispute must understand that there are limits to the duration of any peacekeeping operation.



Peacekeeping must never be considered as an end in itself or as a substitute for political leadership, negotiation and honourable compromise. The basis for any peacekeeping operation has always been an agreement by the parties involved to work towards a political settlement.

Whether or not Canadian troops remain in Cyprus, Greek and Turkish Cypriots bear the ultimate responsibility for resolving the dispute. But it appears that, instead of taking advantage of the peace and order that the UN mission has afforded, some political leaders have used the presence of UN forces to avoid making difficult choices, to avoid making the compromises required to ensure peaceful co-existence.

At a time when there are increasing demands for peacekeeping around the world, we must ensure that we establish our priorities carefully, and manage our resources and contributions effectively.

Mr. Speaker, in deciding to withdraw our troops, we are not saying that the United Nations should put an end to its peacekeeping mission in Cyprus. That is a matter for the Security Council, the Secretary-General, and the parties involved to consider.

Furthermore, I assure the House that we will continue to support the Secretary-General's ongoing efforts to find a peaceful, negotiated solution. In that regard, Canada once again calls upon the parties involved to implement Security Resolution 789 and to work with the Secretary-General. If circumstances change, Canada would consider contributing directly to new UN efforts towards a peaceful settlement in Cyprus, or to its implementation.

Mr. Speaker, as Mrs. McDougall told the UN General Assembly last September, the Government of Canada endorses the Secretary-General's Agenda for Peace and, in particular, the peacemaking and peacekeeping themes in that document. That is why Canada will continue to play a leading role in international efforts to secure peace. Though we are turning the page in this particular chapter of our history, our passion for peace remains as fervent as it was almost 30 years ago when our soldiers donned the blue beret and went to Cyprus.

With over 4,000 troops participating in peace missions from Cambodia to Bosnia, from Croatia to Central America and the Middle East, the words "Canada" and "peacekeeping" will always be closely associated in the eyes of Canadians and in the eyes of the world.

Thank you.

Minister of Industry,  
Science and Technology and  
Minister for International Trade



Ministre de l'Industrie, des  
Sciences et de la Technologie et  
ministre du Commerce extérieur

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# Statement

# Déclaration

92/59

AS DELIVERED



AN ADDRESS BY  
THE HONOURABLE MICHAEL WILSON,  
MINISTER OF INDUSTRY, SCIENCE AND TECHNOLOGY  
AND MINISTER FOR INTERNATIONAL TRADE,  
TO THE HOUSE OF COMMONS  
ON THIRD READING OF  
BILL C-91,  
AMENDMENTS TO THE PATENT ACT

OTTAWA, Ontario  
December 10, 1992





Mr. Speaker, I am pleased to rise in my place today to speak to the Third Reading of the Amendments to the Patent Act. I appreciate this opportunity to set the record straight and bring this debate back to reality.

In my long association with this House, Mr. Speaker, I have rarely seen such a display of misrepresentation and erroneous statements made by opponents as we have witnessed in the past couple of weeks.

The government announced its intention to update the Patent Act a year ago. The honourable members opposite have had plenty of time to get their facts straight.

But instead, Mr. Speaker, we hear the same phoney charges, the same hysteria, the same unfounded allegations as we heard over Bill C-22 in 1987.

Opponents of C-91 and, I regret to say, at least one prominent Canadian newspaper have said recently that the innovative companies failed to keep their 1987 promises to increase research and development (R&D) spending.

The truth is, Mr. Speaker, that these companies doubled their R&D percentage from 4.9 per cent in 1987 to 9.6 per cent in 1991, essentially achieving their 10 per cent target five years ahead of schedule and investing \$1.1 billion in the process. At the same time, they increased basic research from 17 per cent to 26.5 per cent of total R&D.

Opponents said that the industry would never create the expected 3,000 jobs. They were wrong, Mr. Speaker. Two thousand, four hundred jobs were created in the first four years alone. The industry is on track for 3,000 new jobs by 1996. What is more, Canada has bucked an international trend: these increases have come at a time when the industry worldwide is downsizing.

Opponents said that C-22 would destroy Canada's thriving generic drug industry. What has happened since then? Sales by the generic companies in Canada have grown by 180 per cent.

Critics of Bill C-22 also claimed that prices of patented medicines would skyrocket. Again they were wrong. In fact, the Patented Medicines Prices Review Board has been successful in keeping drug price increases to 2.9 per cent -- well below the rate of inflation. What other sector can claim that, Mr. Speaker?

Bill C-22 was successful. It delivered on its promise to improve the climate for R&D and job creation while still ensuring reasonable drug prices and a competitive generic drug industry. But the world is changing. The global environment in which the international pharmaceutical industry operates is evolving



quickly, and we must keep pace if we want to continue to be leaders in this field.

Opponents say that we are doing this for the sake of multinationals. They are wrong. Mr. Speaker, we are moving quickly for the sake of Canada and Canadians. For the sake of those who will benefit from new medicines. For the sake of Canadian scientists and researchers and the growing number of innovative Canadian biotechnology companies -- and I repeat, Mr. Speaker, *Canadian* biotechnology companies -- that are developing the next generation of medicines. For the sake of Canadian jobs in a dynamic, high-tech industry. For Canadians, young and old, who stand to live longer, more comfortable lives as a result of pharmaceutical innovation.

On the basis of our announcement last January and the tabling of this bill last June, the innovative drug companies have come forward with millions of dollars in new investments that will benefit all regions of the country. As you may recall, I spoke to you a few weeks ago about \$500 million in new investments. Since that time, it has grown to \$635 million. This is a commitment to new investments in R&D and manufacturing over five years -- in Canada, where Canadians benefit.

Astra is evaluating sites in Canada to locate a world research mandate -- a \$150 million investment. Nordic Merrill Dow and Smith Klein Beecham have each announced investments of \$40 million for increased R&D. Just three days ago, Eli Lilly announced an investment of \$170 million for R&D expansion and state-of-the-art manufacturing.

There are many more. Overall, this industry will invest more than \$2.5 billion in Canada by 1996. This is a good news story -- and the economy needs good news.

I began my remarks by saying that there is a lot of misrepresentation and misinformation out there regarding this legislation. Let us stop the scaremongering and look at the facts.

First, opponents say that drug prices will soar as a result of Bill C-91. They will not. They have not in the past and they will not in the future. The Board has been given new powers over both new and existing patented drugs. These powers include the ability to roll back prices, recover excessive revenues, impose fines and imprison offenders. This bill has teeth -- sharp teeth. These powers will also ensure that Canada's patented medicines continue to be reasonably priced, as they have been since 1987.

Seniors have been especially concerned. But, again, we must look at reality. Seniors are covered by drug plans in all provinces.

Under current provincial plans, at least 71 per cent will not pay one penny more as a result of Bill C-91. Of the remaining 29 per cent, three-quarters or more of their drug costs are covered by provincial drug plans.

I believe what has caused some of the confusion, Mr. Speaker, is that some drug prices are rising faster than the rate of inflation. However, these are not the patented drugs, and this has nothing to do with Bill C-91. Eighty per cent of all drugs are not patented and therefore are not subject to any form of price control. The price increases of the remaining 20 per cent, the patented drugs, are under control and have remained well below the inflation rate, as I mentioned earlier.

The second misconception relates to the cost impact of Bill C-91. The government has been consistent in its projections of what Bill C-91 will cost: \$129 million, in 1990 constant dollars, over the five-year period to 1996. I want to repeat that, Mr. Speaker: \$129 million. I repeat it because we have heard a great many projections. The opponents of this bill have offered cost projections that have been all over the map.

But Dr. Heinz Redwood, an internationally recognized industry expert, has reviewed our figures. He concludes that they are -- and I will quote him -- "based on acceptable methodology and reasonable assumptions."

Mr. Speaker, Dr. Redwood goes on to say that "the cost to Canada may well turn out to be lower than forecast, thus adding a safety margin for possible but currently unforeseeable additional costs."

So what should we think when Dr. Schondelmeyer, a U.S. economist, appears before the Parliamentary Committee and projects that this Bill will cost Canadians \$7 billion over 17 years? This projection may be sensational. But it is a gross overestimate.

Dr. Schondelmeyer is not an independent or impartial analyst; he was hired by the generic industry some months ago and commissioned by them to perform the analysis of the impact of Bill C-91. He seems to have been extremely limited for time since, I understand, he told the Committee that he did most of the work quickly over the American thanksgiving weekend.

His report included some products that will not even be affected by Bill C-91. His projections do not take into account competition from other patented products, product obsolescence or relevant patent dates. He projected forward 17 years! As experts agree, no one can predict with accuracy beyond five years -- not with the dynamic nature of the medical field. Clearly his approach does not stand up to scrutiny.



On the other hand, government analysts have spent two years assessing the impact on a product-by-product basis to determine, in the most accurate manner possible, the costs over the next five years. We are confident of our figures. We stand by them. The legislation will cost the drug purchasers of Canada \$129 million over five years -- that is, one dollar per Canadian per year.

Opponents maintain that provincial health care systems will be devastated. How could this be? Patented drugs account for only 3 per cent of the total health care costs in Canada.

The cost of drug plans has been rising rapidly, and this is a serious concern to us all. There are those who would like to blame this on the prices of patented medicines and who claim Bill C-91 will have devastating effects. This is a gross exaggeration. As I have said, patented drugs are a minor component of drug plan costs. Drug costs are driven far more by drug usage -- the type of drug, the size and number of prescriptions. Indeed, if each Canadian were to use just one less prescription per year, we would save almost 20 times the additional cost of Bill C-91 to the drug purchasing system.

The third misconception I want to address is the mistaken notion that Bill C-91 will double the patent period for pharmaceuticals from 10 to 20 years.

Let me be clear: the patent term remains exactly the same under Bill C-91 as it was under Bill C-22: 20 years from start to finish. What has changed under Bill C-91 is the length of time that the innovator has to market the product in the absence of generic competition. This will increase from 7 to 10 years. The first 10 years of the 20-year patent term are normally used up in product development and in meeting regulatory requirements. This leaves just 10 years, on average, of patent protection for the innovator once the product is on the market. Under Bill C-22, generic firms have been able to obtain a compulsory licence to market a copy of the brand name product an average of three years before the patent expires -- in other words, around year 17 of the 20-year term. Under Bill C-91, they will have to wait the full term of the patent, on average another three years.

Once the patent expires, the generic drug companies in Canada will be able to compete openly with the company that invented the medicine, as is the case with any other sector of technology and as is the case for generic companies operating in the markets of our major trading partners.

Opponents have come up with much longer estimates of the extension of market exclusivity. How do they do this? Sometimes they draw conclusions from a few extreme cases. Sometimes they include in their analysis products that will be unaffected by

Bill C-91 because their patents have already expired or compulsory licences have been issued. They also use inaccurate patent expiry dates. So how would you expect them to come up with a valid answer? They cannot. They have carefully chosen samples of data that support the case they are trying to make.

Fourth, opponents like to say that this Bill will mean the end to the generic industry in Canada. This is not the case. As I mentioned, they have grown over 180 per cent since 1987. Our projections indicate that, in the new environment, there is no reason why they should not be able to grow at rates equal to those of the overall pharmaceutical industry.

Close to 60 per cent of generic business is now generated from drugs that are already off patent. Furthermore, there are nearly 2,000 off-patent products that are available to the generics, but have not yet been copied by them in Canada.

The U.S. generic industry operates in an environment without compulsory licences, yet it is growing and thriving -- so much so that Canadian generic companies have bought U.S. generic companies with their Canadian profits. Clearly there is no reason why this sector should not prosper in Canada.

Yesterday morning Ralph Nader said on Canada AM, on the subject of Bill C-91: "If it ain't broke, why fix it?" Mr. Speaker, such opponents ignore the changing realities of the global market place. Ralph Nader talks a great line about all of Canada's inventions. What he is really saying is that he would like to see us keep on inventing. But he would not provide the encouragement and protection to the inventors. Then he would have us hand over our inventions to countries where there is this protection so that they can commercialize these inventions for world markets and, in doing so, reap the benefits. I do not agree with him. We want to keep the jobs and benefits here in Canada. That is what this Bill is all about.

We must keep up with the times. We must make Canada a high-tech, R&D-intensive country if we want to improve our international competitiveness. An international consensus has emerged in the General Agreement on Tariffs and Trade (GATT) on world standards for intellectual property. It is critical to Canada's future prosperity that we participate in this consensus.

The North American Free Trade Agreement (NAFTA) carries the very same commitments as the GATT Dunkel text. And no, Mexico does not get an eight-year delay in having to comply with drug patent requirements under NAFTA, as critics have claimed. This is completely erroneous. In fact, all parties have to comply on the same basis. The eight-year transition period applies to Mexican government procurement of drugs, not to intellectual property



protection. This is just one more example of distortion of the facts by the critics.

Critics claim that Canada can never hope to do the research to discover new medicines. They think that all research is undertaken where the parent company is headquartered and that it has nothing to do with patent protection. These comments are out of touch with the realities of modern economies, Mr. Speaker. No longer does this industry operate on a branch plant structure.

These days the pharmaceutical industry can locate its discovery research anywhere in the world. This is both an opportunity and a threat for Canada. Will we be able to hold our own? Are the companies in Canada modern enough, flexible enough and forward-thinking enough to make it in the global marketplace?

We have competitive advantages, Mr. Speaker. We have world-class biomedical scientists. We have excellent medical institutions and a reputation for high standards in the area of medicines. We have an international reputation as the best health care system in the world.

All these are important. But the single most important factor considered by pharmaceutical companies when determining where to locate a new investment is intellectual property protection. The importance of patent protection to this sector is made evident in the following quotation from the Simard study released by Health and Welfare Canada a few months ago: "No pharmaceutical multinational will risk the current high cost of overseas R&D unless it knows absolutely that its intellectual property will be protected by vigorous patent law in the country where it expects to discover new drugs."

Mr. Speaker, Bill C-91 is a cornerstone of Canada's ability to become a major player in the international drug industry. I am confident that we are on the threshold of a new era of investment and high-tech jobs.

It is time for the opponents of Bill C-91 to stop distorting the facts. It is time for Canada to join the rest of the industrialized world in protecting creativity and innovation. It is time for this House to pass this legislation so that Canadians can get on with building a modern, innovative, knowledge-driven economy.

Thank you.







